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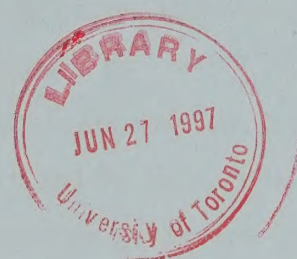
Background Paper

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**BUDGETS 1996: CONTINUING RESTRAINT BY FEDERAL,
PROVINCIAL AND TERRITORIAL GOVERNMENTS**

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August 1996



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BUDGETS 1996: CONTINUING RESTRAINT BY FEDERAL, PROVINCIAL AND TERRITORIAL GOVERNMENTS

The economy performed exceptionally well in 1994, enabling virtually all Canadian governments to improve their deficit positions and set the stage for improved fiscal performance in the future. Only the rapid rise in interest rates in that year put a damper on even better results. By contrast, the economy performed poorly in 1995. Nevertheless, Canadian governments continued their deficit-cutting policies. The federal government is on track for meeting its short-term deficit targets and most provinces have committed themselves to balanced budgets or have actually achieved these and are talking about measures to reduce the outstanding level of debt. The largest units, the governments of Canada, Ontario, and Quebec, are still, however, furthest away from budget balances.

This paper examines 13 budgets tabled this year, the federal government's and those of the provinces and territories. The paper is designed to enable the reader to identify at a glance the various fiscal trends and to compare and contrast the fiscal policies being conducted in Canada by the various governments.

Material is taken from various budgets, which do not always use the same terminology or accounting conventions, especially in discussing the deficit and the debt. Where budgets are summarized, the accounting conventions used by the appropriate government are employed here as well. When these accounting conventions diverge from common usage, an attempt is made to note their impact on the published figures.

All references here are to fiscal years ending 31 March. The year ending 31 March 1996, often cited as 1995-96, is here referred to as 1996.

GOVERNMENT OF CANADA

The 1996 federal budget was tabled in the House of Commons on 6 March 1996. As in the previous year, it followed the Finance Minister's Economic and Fiscal Update, released three months earlier. In that document the Minister announced that the deficit target for 1997-98 would be set at 2% of GDP. The House of Commons Standing Committee on Finance held pre-budget consultations in the fall of 1995.

The measures announced in this budget will enable the government to meet its short-term budgetary goals as well as setting the stage for further deficit reductions.

A. Revenue Trends

In 1993, federal revenues were \$121,452 million, only 7% higher than in 1990. While personal income tax receipts over that three-year period were up by 12%, to \$58,300 million, corporate income taxes were down by 36% and total sales and excise tax revenues were down by almost 7%. The only other area of strong revenue growth, which in this case indicated poor economic performance, was premium revenues from unemployment insurance, which grew by 63%.

In 1994, revenues dropped precipitously to \$116,000 million on account of the state of the economy and other events. By 1995, revenues had increased to \$123,300 million and they are expected to grow to \$130,600 million in 1996 and remain in the range of 16.7% to 16.8% of GDP over the next two years. Over this period, employment insurance contributions remain the second largest revenue source for the federal government, now accounting for 14% of all revenues. With the employment insurance account predicted to run continuing surpluses, there is some pressure on the government to reduce premiums substantially in the near future.

This budget introduced little in the way of substantial new tax measures. On the business taxation side, the temporary capital tax on large deposit taking institutions was extended by one year to 31 October 1997. This measure should earn the government \$65 million, over one-half of all net revenues from business taxation measures. The next most important source of new net revenues comes from new restrictions on the use of flow-through shares. These changes are

designed to stop some abuses and to better focus the incentives on riskier expenditures. Changes also increase the flexibility of the provisions and make them available to those investing in renewable energy.

At the personal level, the measures tend to be revenue-neutral in aggregate even though there are some major changes. The government has reduced the tax credit (from 20% to 15%) and the maximum contribution (from \$5,000 to \$3,500) for investments in Labour-Sponsored Venture Capital Corporations. RRSP and RPP contribution limits have also been reduced. Increases in contribution limits under current law are to be delayed by six years. The budget also requires pension plans to mature at age 69 rather than 71. Individuals will not be allowed to contribute to RRSPs or RPPs once they reach age 69 and they must start receiving income from those plans at that time. On the other hand, the budget removes the seven-year limit on the carry forward of unused RRSP room.

The budget also affects families with children. The working income supplement is to be doubled to \$1,000 over two years and the tax treatment of child support is to be changed. Effective in 1997, child support payments for new or amended support orders will no longer be deductible by the payer and no longer taxable in the hands of the recipient.

Other changes increase incentives for charitable giving as well as the tax assistance with respect to education. The government also predicts that an additional \$50 million spent each year on policing the underground economy will result in an additional \$150 million in gross revenues.

B. Expenditure Trends

Federal spending grew at a faster pace than revenues from 1990 to 1993. This is now changing. After 1995, program spending is expected to decline every year; by 1998 it will be \$14,000 million less than in 1994, when it totalled \$120,000 million. As a proportion of GDP, program spending, including restructuring charges, is to decline from 16.8% to 12.6%. But, while program spending is declining, public debt charges are still expected to grow. By 1998, they are expected to reach \$49,000 million (5.8% of GDP), compared to \$38,000 million (5.3% of GDP) in 1994.

The government is able to control spending on account of a major review and reduction in program expenditures and government operating costs that will lead to a 45,000-person decline in federal employment. While approximately 6,000 of these positions are expected to be transferred to the private sector, the remaining positions are to disappear. By 1999, departmental spending should be 21.5% lower than in 1995. This amounts to an \$11,000-million reduction to \$40,600 million.

Although the 1996 budget adds only an additional \$1,900 million in spending restraint, it does make two major changes to the government's spending plans.

In 1995, the government decided to combine the Canada Assistance Plan and Established Programs Financing transfers into one block grant, starting on 1 April 1996. This Canada Health and Social Transfer (CHST) results in a total of \$4,700 million in reduced transfers for 1997 and 1998. This year the government announced a formula for the distribution of CHST entitlements that will tend to equalize per capita amounts, although full equality will not be achieved. The two-year freeze on entitlements will end in the year 2001 and will grow after that, at ever increasing rates. In addition, the federal government is setting an aggregate \$11,000 million cash floor for the CHST.

The other major change in spending is with respect to elderly benefits. The government currently spends about \$20,000 million on these benefits. Starting in the next century, OAS and GIS payments will cease and be replaced by an income-based payment to seniors. This Seniors Benefit will be fully indexed to inflation, as will be the income threshold. Seniors eligible for the GIS will receive payments higher by \$120 per year. Current seniors will have a choice between the old and new system. The age and pension income credits will disappear for all seniors, whether they opt for the new system or not.

The budget also controls recent immigrants' access to the GIS and spouse's allowance. Even though such immigrants might be eligible for only a small OAS pension, their eligibility for the OAS under the existing regime makes them automatically eligible for GIS and spouse's allowance which, for low-income seniors, is more generous.

C. Deficits, Debt and Interest Costs

The 1993 federal deficit was \$41,000 million and grew to \$42,000 million the year after. In 1995, it fell to \$37,900 million but could have fallen even further, to \$35,300 million. The figure was inflated because of two restructuring costs charged to the 1995 year: an *ex gratia* payment of \$1,600 million to western farmland owners in compensation for the elimination of the *Western Grain Transportation Act* subsidies; and a \$1,000-million cost of early departure incentives for public servants. The 1996 deficit will likely be less than \$30,000 million. The 3% target for 1997 appears to be a safe bet and the government has set the target for 1998 at 2% of GDP.

At 31 March 1993, the net public debt stood at \$466,200 million, compared to \$358,000 million in 1990 and in contrast to the \$428,000 million that the 1990 budget had forecast for 1993. By 31 March 1998, it is expected to reach \$620 million, 73.7% of Gross Domestic Product.

Public debt charges are expected to be about \$49,000 million by 1998, due to the continually increasing debt. Interest rates are expected to be lower than those forecast in the 1995 budget.

D. Deficit Control Measures

The 1995 budget focused on deficit cutting. Over a three-year period, the budgetary measures discussed above are to keep the cumulative deficit \$29,000 million lower than would otherwise have been the case. Over that same period, expenditure cuts are about seven times as great as revenue increases while the ratio is closer to 4:1 in 1996.

This short-term deficit decline is enhanced by the government's decision to allow the EI Account to accumulate a surplus far in excess of \$5,000 million. The projections in the 1996 budget contain continued high EI premium receipts until 1998. In such a case, the cumulative surplus in the EI account will exceed \$10,000 million.

The 1996 budget includes only minimal measures to cut the deficit even further. It is the measures in the 1995 budget that will enable the government to achieve its 2% deficit target for 1998.

E. Economic Forecasts

The government's approach to economic forecasting has been described facetiously as a liberal dose of conservative assumptions. Strong growth is not expected to return until the 1997 calendar year.

CENTRAL CANADA

Ontario and Quebec constitute the economic heartland of Canada. These are the two largest economies in Canada and it is here that Canadian manufacturing activity is concentrated. It is also here that the recent recession has been felt the hardest.

A. Ontario

The Ontario budget was tabled on 7 May 1996. The figures contained in this budget are based on the standards of the Public Sector Accounting and Auditing Board (PSAAB), rather than the modified cash basis used previously. Budgetary deficit figures now give a better picture of the annual deficit than in the past.

1. Revenue Trends

In 1989, the province of Ontario collected total revenues of \$36,991 million, which grew to \$41,807 million by 1993, and \$46,039 million in 1995.

From 1993 to 1997, the personal income tax share of total revenues is expected to remain fairly constant at just under one-third of total revenues. The retail sales tax share is to grow from 17.5% to 20.4%, while corporate income taxes should grow from 6.5% to 11.5%. The employer health tax contributes another 6% or so of revenue. Federal restraint in transfers is evident in the fact that cash transfers are expected to decline from 18.1% of revenues to 12.9%.

This budget plan forecasts revenues to grow by only 1.3% over two years to \$46,660 million in 1997.

2. Expenditure Trends

Expenditure growth by the provincial government has been quite rapid. From 1989 to 1993, total spending grew by 8.8% per annum to reach \$54,235 million, while operating expenditures grew by 9.3% per year. Total spending in 1995 equalled \$56,316 million and is predicted to grow to \$56,917 million in 1996. By 1998, total spending should fall to \$54,190 million.

In November 1995, the Harris government announced its intention to cut operating spending by about \$3,000 million by the end of 1998. About half this amount was identified in April of this year, prior to the tabling of the budget. No further cuts were announced in the budget.

3. Debt, Deficits and Interest Costs

In 1990, the Ontario government enjoyed a \$90 million surplus. This became, two years later, a \$10,930 million deficit. In 1993, it grew by about \$1,500 million but fell to \$11,300 million in 1994. This budget predicts that the deficit will fall to \$8,180 million by 1998 and the government plans to balance the budget by 2001.

On account of these developments, the 1994 debt, at \$79,439 million, was twice as high as the 1990 debt. By 1997, it is predicted to be \$102,820 million.

Public debt interest cost the government \$5,293 million in 1993, up from \$3,817 million in 1990. For 1995, it grew to \$7,983 million and consumed 17 cents of every revenue dollar, up from 9.3 cents in 1990. By 1997, debt charges are expected to reach about \$8,745 million and account for 18.7 cents of every revenue dollar.

4. Fiscal Policy Measures

The approach to economic and fiscal policy employed by the Harris government is far different from that of the previous government. This government believes that a supply-side approach is the most effective in stimulating the economy; hence it has promised a 30% cut in personal income taxes over three years. To pay for these cuts, which are forecast to cost \$4,815 million per year when fully implemented, the government will have to cut program

spending dramatically. In recognition of the fact that the stimulative effect of the cuts is not sufficient to reduce the deficit over time, further cuts will be implemented.

The government also believes that the Employer Health Tax represents a significant burden for small businesses and a strong disincentive to job creation. Thus the first \$400,000 of an employer's payroll is to be exempt from tax by the year 1999. To pay for this, and to make the personal income tax system even more progressive, the government is restructuring the income tax surtax, calling it the Fair Share Health Care Levy. It is also increasing the Ontario Tax Reduction, to take more lower income families off the tax rolls.

By the time the income tax reduction is fully in place, the Ontario tax will be 40.5% of basic federal tax. When the government took office, the tax rate was 58% of basic federal tax. On 1 January 1997, the tax rate will be 49% of basic federal tax, half way to the eventual goal.

5. Economic Forecasts

Ontario was hit particularly hard by the last recession, but 1994, with 5.5% growth, was a very good year for the Ontario economy. The year 1995 was disappointing, with growth of only 2.5%. 1996 is also predicted to be a relatively slow growth year, but economic growth is expected to reach 3% by 1998. The unemployment rate is expected to be above 8.5% for the next three years.

The Ontario government's projections to 1998 are slightly lower than the private sector average forecast, primarily because the government is using interest rate forecasts that are at least 60 basis points higher than the average private sector forecast. In this respect, the Ontario government is using prudent forecasting, just like the federal government. The budget also introduces the concept of contingency reserves, with \$650 million set aside for 1997 and \$700 million for 1998.

B. Quebec

The Quebec budget was tabled in the National Assembly on 9 May 1996.

1. Revenue Trends

Total revenues in 1993 were 14% higher than in 1990. In 1993, the government of Quebec received revenues of \$35,415 million, of which \$27,620 million came from its own sources and of which \$7,795 million came from the federal government in the form of cash transfers.

By 1995, total revenues reached \$36,437 million, predicted to grow to \$38,295 million in 1996. Federal cash transfers in 1995 were \$7,520 million, representing about 20% of total revenues. With the reduction in federal cash transfers associated with the CHST, total revenues are expected to fall in 1997 and 1998.

2. Expenditure Trends

Government expenditures grew by a total of 24% between 1990 and 1993. Health and social services spending has grown by a similar amount while training and income maintenance spending has been growing at twice the rate.

At \$42,147 million, budgetary expenditures in 1995 equalled 25% of provincial GDP. Program spending in 1997 and 1998 is expected to decline by over 3% in each year.

3. Debt, Deficits and Interest Costs

In 1993, the deficit of the government of Quebec reached \$4,978 million, three times the 1990 amount. It fell slightly in 1994 but grew to \$5,710 million in 1995, about \$1,300 million higher than had been predicted in the 1994 budget. The deficit still exceeds 3% of provincial GDP. It is predicted to fall to \$3,969 million in 1996, \$3,300 million in 1997, and be eliminated by the year 2000.

Debt servicing costs in 1995 were \$5,874 million, up more than 10% from the previous year. These charges are consuming about 16 cents of every revenue dollar. This budget predicts only modest increases in debt service costs after 1996.

Total debt of the provincial government stood at \$74,471 million in 1995.

4. Fiscal Policy Measures

The budget contains a number of measures to control the deficit. The budget states that for every dollar of tax increase, four dollars in spending are cut. Program spending, that the budget says would have grown by over 3% per year without budgetary measures, is now expected to fall. These cuts amount to over \$2,000 million in 1996, almost \$5,000 million in 1997 and over \$6,000 million in 1998.

The budget also sets out deficit-reduction targets, culminating in a balanced budget by the year 2000. Legislation is to be passed requiring that the targets be met unless there is a catastrophe of some sort, the economy deteriorates significantly or the federal government reduces transfers substantially.

The budget implements a variety of new tax measures, designed mostly to lessen the cost of certain tax expenditures. A variety of non-refundable tax credits available to individuals will now be subject to an income test while the minimum tax will become effective at a lower income level. A capital tax will apply to savings and credit unions and the ability of large corporations to receive a full input credit under the Quebec sales tax is now delayed for half a year.

5. Economic Forecasts

The budget projects economic growth at 1% for 1996, 1.5% for 1997 and 2.4% per year after that. These rates of growth are below the corresponding Canadian averages. The unemployment rate is expected to stay high, at over 11%, through to 1999.

THE WESTERN PROVINCES

The four provinces of western Canada are economically and financially quite diverse. Alberta and British Columbia do not receive equalization payments from the federal government, whereas Saskatchewan and Manitoba are part of the group of "have not" provinces. Saskatchewan receives the lowest amount for per capita equalization payments of any government.

A. British Columbia

The British Columbia budget was tabled in the Legislative Assembly on 30 April 1996. An election was subsequently held and upon the re-election of the NDP government, the budget was again tabled in the legislature. The original surplus, reported as \$16 million for 1996, has now turned into a \$235 million deficit on account of reduced revenues from the natural resources sector.

1. Revenue Trends

Unlike other governments in Canada, the provincial government in British Columbia continues to experience relatively healthy revenue growth. Revenues in 1993, at \$16,250 million, were 11% higher than the year earlier and grew another 10.8% in 1994. Total revenues have grown by over 6% per year despite declining federal cash transfers, reaching \$20,130 million in 1996 and \$20,659 million in 1997.

Tax revenues have been increasing every year. Personal income taxes have been growing since 1993 at an annual rate of 5.5% while corporate taxes have been increasing annually at a rate of 28%. The introduction of a much higher corporation capital tax is now adding well over \$400 million to provincial coffers every year. Sales tax receipts are also growing rapidly while natural resource revenue has been growing by over 17% per year since 1993.

Cash transfers from the federal government have been increasing only slowly since 1993. In 1996, cash transfers from the federal government are expected to decline to \$2,341 million from \$2,462 million in 1995, and to fall to \$1,909 million in 1997.

2. Expenditure Trends

From 1993 to 1997, total government expenditures from the Consolidated Revenue Fund are expected to grow by an average of 3.5% per year. Growth in spending in 1995 and the estimated growth for 1996 have declined to under 3%. These rates of spending growth are high by the standards of other governments in Canada.

Spending has grown fastest in the area of debt servicing, social services, education and public protection. At estimated \$20,572 million for 1997, total government spending in that year will be 14.7% higher than in 1993.

Several features cause British Columbia government expenditures to be understated according to these figures. If the government borrows early to fund its operations, the interest earned is deducted from spending, not added to revenue. More importantly though, much of the government's capital spending is done through Crown corporations and agencies and hence is off budget. In 1993, for example, the government decided to record highway capital spending off budget; consequently, trends in spending growth since that time have been understated.

3. Debt, Deficit and Interest Costs

As of 31 March 1992, taxpayer-supported debt in British Columbia stood at \$12,547.5 million. It grew to \$19,037.5 million as of 31 March 1995 and is expected to grow even more, to \$20,580, in 1997.

The operating deficit of the government has declined significantly since 1992, when it was \$2,534.4 million. For 1995, it was \$446 million and was expected to turn into a surplus of \$16 million in 1996. The government now says that the books for 1996 will show a deficit of \$235 million. An \$87 million surplus is still being predicted for 1997.

The deficit numbers cited above exclude a wide variety of government spending that takes place off budget, as was mentioned above. What, then, is the total annual deficit of the government? One way to calculate the government's total deficit is to calculate annual changes in the level of taxpayer-supported debt. This debt includes all provincial government debt with the exception of British Columbia Hydro and Power Authority and British Columbia Railway Company, both of which are commercial enterprises. On this basis, the deficit in 1995 was \$1,056.4 million, down from \$3,348 million in 1993. It should be over \$1,000 million in 1996 as a result of the revision to the Consolidated Revenue Fund balance. The budgetary figures predict a decline to \$726 million for 1997.

In 1995, debt service charges were \$967 million, up 50% from 1992. These are expected to grow to \$1,100 million in 1997. These charges consume only 5% of total government revenue, which is very low by Canadian standards.

4. Fiscal Policy Measures

The British Columbia economy has performed well over the past few years by Canadian standards and the province has a modest debt burden. Nevertheless, the high rate of expenditure growth has required the government to take some measures in control of the deficit. In the past, most of those measures were designed to raise more revenue. Now the government is controlling spending to some degree, and with the conversion into deficit of the reported surplus, a short-term freeze has been imposed on capital spending. It is also cutting program spending, reducing the number of public servants and freezing wages and salaries.

Since this was originally to have been a surplus budget, the government introduced several expansionary measures. These included a cut in personal income taxes from 52.5% of basic federal tax to 50.5%, a reduction in taxes on small business and a two-year tax holiday for new small businesses. Taxes are to be frozen until the year 2000. Insurance and hydro rates are frozen as is university tuition. The government has also announced an increase in university spaces, and more funding for education and health care.

5. Economic Forecasts

In 1995, the British Columbia economy grew by 2.7%. The province remains a favourable destination for immigrants. According to the budget documents, the economy of the province is expected to grow faster than the national average in 1996, with the unemployment rate falling below 9%.

B. Saskatchewan

The Saskatchewan budget was tabled in the Legislature in March 1996.

1. Revenue Trends

In 1992, the total income of the Saskatchewan government was \$4,052 million. By 1995, it had risen to \$5,225 million and is expected to grow to \$5,345 million in 1997. This figure is enhanced by an extraordinary item, namely a \$350-million dividend from the Crown Investment Corporation of Saskatchewan. (If this dividend is not counted, revenues fall by 4.4% from 1995 to

1997.) Transfers from the federal government, at \$922 million, represent about 17% of total revenues.

2. Expenditure Trends

In 1995, operating expenditures, including capital spending, were \$4,215 million while public debt charges amounted to \$881 million. In 1991, operating spending was \$4,543 million. Operating spending in 1997 at \$4,174 million is expected to be well below the 1991 level, causing total spending to fall to \$4,988 million.

3. Deficits, Debt and Interest Costs

The government of Saskatchewan had hoped to achieve a balanced budget by 1997 -- it did so by 1995. The 1996 surplus was only \$1 million, but it is expected to grow to \$358 million in 1997. Virtually all of this recorded surplus is due to the extraordinary dividend mentioned above.

Debt-servicing costs are rising quickly, from \$523 million in 1992 to \$881 million in 1995 (16.7% of revenues). The reason for this is clear. The budgetary deficits of the early 1990s have contributed greatly to the rise in the net debt position of the government. When added to the write-off of \$1,453 million in assets in 1992, these factors caused the accumulated deficit to grow from \$3,688 million as of 31 March 1992 to a forecast amount of \$8,367 million as of 31 March 1997. It is now falling gradually on account of annual surpluses. Starting in 1998, debt service charges are expected to be less than \$800 million and decline to \$750 million in 2000.

4. Fiscal Policy Measures

The budgetary surplus is expected to continue growing to \$140 million in 2000. The government is maintaining last year's cut in the Debt Reduction Surtax.

5. Economic Forecasts

In 1995, real GDP in Saskatchewan increased by 2.1%, which the budget projects will grow to 2.6% in 1995. Real growth to 1998 is expected to average about 2% per year while

the unemployment rate should average about 7%. The budget sees strong growth for 1999 and 2000.

Like the federal government, the government of Saskatchewan is employing economic assumptions that tend to be slightly more pessimistic than those of private sector forecasters.

C. Alberta

The Alberta budget was tabled in the Legislative Assembly on 22 February 1996.

1. Revenue Trends

Total revenues in 1990 were \$9,720 million. They had grown to \$15,084 million in 1995. At \$14,167 million, revenues for 1997 are expected to be almost \$1,000 million less than in 1995.

The Alberta budget sees the high revenues of 1995 as an extraordinary event and thus discounts those numbers for future years. In addition, the budget subtracts a revenue cushion of more than \$500 million from forecast revenues for 1997 and subsequent years. Thus budgetary revenues for 1997 are \$13,622 million, not the \$14,167 million forecast amount cited above. These revenue cushions are somewhat akin to the federal government's contingency reserve. Whereas the federal government adds its reserve to spending, the Alberta government subtracts its cushion from revenues.

2. Expenditure Trends

In 1990, total expenditures were about \$12,057 million. This grew to \$16,844 million in 1993. After 1993, spending has been falling substantially, primarily as a result of reduced program spending. In 1995, total spending was \$14,578 million and it is expected to fall even further in 1997, to \$13,678 million.

3. Debt, Deficits and Interest Costs

As of 31 March 1993, the net debt of the Alberta government stood at \$11,824 million. By 31 March 1995, it stood at approximately \$12,707 million and should fall to \$12,472 million in 1997. The net debt, excluding unfunded pension liabilities, was \$8,313 million in 1995, falling to \$6,782 million in 1997.

The consolidated deficit for 1993 was \$3,415 million (4.5% of provincial GDP). It fell by more than \$2,000 million in 1994 and a \$958 million surplus was achieved in 1995. A \$573 million surplus for 1996 is expected as well as a \$23 million surplus for 1997. The budget takes an extremely cautious view of certain revenue sources and thus the surpluses tend to be understated in the current circumstances.

Debt-servicing costs in 1993 were \$1,232 million. They peaked in 1995 at \$1,535 million and are expected to decline every year as the net debt of the province declines.

4. Fiscal Policy Measures

The government plans to reduce taxes on persons and businesses, with the changes phased in over several years. It is introducing an employment tax credit that will be worth as much as \$1,000 in 1998. The flat tax on personal income is to be eliminated in 1999 and the surtax will be gone by the year 2001.

Property tax rates are to be reduced somewhat while the tax on domestic aviation fuel is to be cut in half in 1998 and the railroad fuel tax will be cut by two-thirds in 1999.

The Alberta government has previously enacted the *Deficit Elimination Act*, which established a four-year timetable for the achievement of a consolidated budget balance, mandating a surplus every year after 1996. As part of this deficit reduction plan, every department must establish a business plan that includes target spending to the year 1998.

The Act was amended and renamed the *Balanced Budget and Debt Retirement Act*. The fiscal performance of the government is well within the bounds set out by the legislation.

5. Economic Forecasts

The Alberta economy grew by 5.1% in 1993 and 4.5% in 1994. The government is basing its projections on economic growth of 2.7% in 1996 and 3% in 1997 and 1998. The unemployment rate is expected to fall to 6.8% by 1998. It is assuming interest rates well above private sector forecasts.

D. Manitoba

The 1996 Manitoba budget was tabled in the Legislative Assembly on 2 April 1996.

1. Revenue Trends

Operating revenues were \$4,697 million in 1993, growing to \$5,023 million in 1995 and are predicted to reach \$5,320 million in 1997. The budget sees revenues growing steadily to the year 2000, when they should reach \$5,582 million. Lottery revenues are now included in revenues when earned. Previously the government could account for these revenues in a discretionary fashion.

2. Expenditure Trends

Total spending in 1997 is predicted to be \$5,298 million, down from \$5,507 million in 1996. Net capital spending is to fall to about \$310 million in 1997.

3. Debt, Deficits and Interest Costs

As of 31 March 1993, the general purpose net debt of the province stood at \$6,179 million, almost 17% higher than the year before. By 1997, it should increase to \$6,845 million.

In 1993, the deficit, at \$566 million, was 69% higher than the previous year. A surplus of \$120 million was achieved in 1996 and another \$22 million surplus is expected for 1997.

Public debt costs in 1997 are expected to be \$575 million (10.8% of revenues).

4. Fiscal Policy Measures

As a result of the restraint measures undertaken in last year's federal budget, the 1995 medium-term fiscal projections of the Manitoba government will not be met. Surpluses will be lower than originally thought, although the provisions of the balanced budget and debt retirement laws will still be met.

As of 1998, annual spending figures will include a \$75-million charge for debt repayment. Any recorded surpluses will be deposited into the Fiscal Stabilization Fund. The balance in this fund is to finance short-term revenue shortfalls or to eventually pay down the debt further, cut taxes or support new spending initiatives.

5. Economic Forecasts

The budget forecasts real economic growth at 3.0% in 1995 and 2.7% in 1996. The unemployment rate is expected to fall to 8.2% in 1996, from 9.2% in 1994. The growth in real output and employment is expected to be slightly lower than the Canadian average.

THE ATLANTIC PROVINCES

The four provinces of Atlantic Canada constitute the poorest region of the country. These provinces have the highest unemployment rates and the lowest per capita incomes in Canada. They also rely heavily on transfers from the federal government.

A. Prince Edward Island

The PEI budget was tabled on 14 March 1996.

1. Revenue Trends

Total provincial revenues for 1995 were \$820 million. They fell to \$790 million in 1996 and are expected to grow to \$801 million in 1997. These figures compare with total receipts of \$660 million in 1990.

For 1997, the PEI government is expecting a drop in cash payments from the federal government. Own-source revenues are predicted to grow by 6.6%, more than offsetting the fall in transfers.

2. Expenditure Trends

Total spending on current account and net capital account amounted to \$689 million in 1990, rising to \$830 million in 1995. For 1996, total spending fell to \$786 million. In 1997, it is expected to grow to \$797 million.

3. Debt, Deficit and Interest Costs

As of 31 March 1993, the net debt of the government of Prince Edward Island stood at \$352 million, up from \$191 million only four years earlier. Deficits in 1993 and 1994 were \$82.3 million and \$71.3 million respectively, up from \$7.9 million in 1990. The 1995 deficit came in at well under \$10 million. A \$3 million surplus was achieved in 1996 and a slightly larger surplus (\$3.4 million) is expected for 1997.

The net debt as at 31 March 1995 stood at \$962.8 million, more than \$600 million above the 1993 figure. This enormous jump is due to accounting changes whereby the net debt now includes all unfunded pension liabilities and excludes from assets any advances to schools and hospitals.

The growth in the accumulated deficit of the province has led to an increase in debt-servicing costs, which have risen from \$84 million in 1991 to \$120 million in 1996. These charges today consume almost 15 cents out of every dollar of revenue, up from 13 cents in 1990.

4. Fiscal Policy Measures

From 1988 to 1992, the unemployment rate in Prince Edward Island increased steadily from 13% to 17.7% and during this period the deficit ballooned. In 1991, when other provinces were starting to implement expenditure control measures, the PEI government was relying upon tax increases to fix its budgetary problems. At that time, full harmonization of the provincial sales tax with the GST was contemplated, and several income tax increases were put into place.

This budget introduces no new spending or revenue initiatives. It does, however, continue the restraint measures of previous budgets.

5. Economic Forecasts

The PEI economy performed better than the national average in 1994 and the provincial unemployment rate in early 1994 was 17.1%, down from 18.1% a year earlier. With growth of 5% in 1995, the unemployment rate fell to 14.7%.

B. Nova Scotia

The Nova Scotia budget was tabled in the House of Assembly on 25 April 1996.

1. Revenue Trends

In fiscal year 1990, the total revenues of the Nova Scotia Government were \$3,775 million, but they fell during the early years of the 1990s. They grew in 1996 to \$4,241 million. Revenues are predicted to fall somewhat in 1997 to \$4,178 million. This is due primarily to the decline in federal transfers.

2. Expenditure Trends

Total net program expenditures on both the current and the capital account have been reduced and, at \$3,565 million in 1995, were below 1993 levels. They are forecast to fall to \$3,400 million in 1997, despite the prediction of a temporary increase in 1996. With debt-servicing charges at about \$900 million per year, total spending for 1996 and 1997 should be about \$4,539 million and \$4,297 million respectively.

3. Debt, Deficits and Interest Costs

The provincial deficit was \$549 million in 1994 and \$235 million in 1995. The budget forecasts a deficit of just over \$180 million in 1996 and a \$2.8 million surplus in 1997.

The rapid increase in the net debt position of the province in the early 1990s has led to growing debt-servicing costs. From 1993 to 1995, for example, annual debt-servicing costs

increased by more than \$100 million. In 1995, interest charges accounted for 22% of total revenues. These costs are expected to stay at about \$900 million over the next two years. The provincial debt is more than \$8,500 million.

4. Fiscal Policy Measures

The 1994 budget put into place a four-year plan to bring the province's finances under control. The 1995 budget continued these initiatives.

The government will introduce legislation to limit the growth of program spending to the rate of growth of revenues. Total spending will not be allowed to exceed approved spending by more than 1% and should a deficit occur, it would have to be recovered within two years.

The budget offers tax relief to individuals in the form of a two-point cut in the personal income tax rate to 57.5% of basic federal tax. Harmonization of the sales tax with the GST represents a tax reduction of about \$120 million. The province also introduced a new corporate capital tax of 0.25%, applied to financial capital.

5. Economic Forecasts

The budget forecasts growth of under 1.5% for Nova Scotia, in the near term, well below the national average. Unemployment is expected to fall no lower than 11.6%.

C. New Brunswick

The New Brunswick budget was tabled in the Legislature on 15 February 1996.

1. Revenue Trends

Total budgetary revenues in New Brunswick equalled \$3,583 million in 1990, rising to \$3,690 in 1992, and are predicted to reach \$4,541 million in 1997. Total revenues should fall for two years after that as the cuts in federal transfers outweigh any growth in own source revenues. Total revenues are not expected to exceed the 1997 level until the year 2000, when they are forecast to reach \$4,628 million.

2. Expenditure Trends

In 1991, the New Brunswick government spent \$3,773 million on ordinary account expenditures and \$296 million on net capital spending. By 1993, these two components reached \$4,452 million. Total spending in 1996 is expected to decline to \$4,202 million. Total spending from 1997 to 2000 is predicted to grow by less than 1% per year on average.

3. Debt, Deficits and Interest Costs

As of 31 March 1992, the net debt of the provincial government amounted to 31% of provincial GDP. At 31 March 1995, it stood at \$5,525 million and is expected to decline annually on account of budgetary surpluses, to \$5,356 million in 1997.

The provincial government will pay about \$863 million in interest payments in 1997, around 19% of revenues.

The budgetary deficit for 1995 was \$64 million. A budgetary surplus of \$76 million was recorded for 1996, which is expected to grow to \$93 million in 1997.

4. Fiscal Policy Measures

The fiscal projections in last year's budget suggested a cumulative surplus of \$240 million for the four-year target period ending in the year 2000. This would be within the bounds set out by New Brunswick's balanced budget legislation. Federal transfer cutbacks put that forecast in jeopardy unless new initiatives are taken.

The 1996 budget does just that, promising further spending restraint to counter the decline in federal transfers. The four-year forecast for cumulative surpluses is now about \$191 million. The budget indicates that there would have been a cumulative deficit of \$112 million in the absence of these measures. This stands in sharp contrast to the \$240 million cumulative surplus predicted in last year's budget.

5. Economic Forecasts

According to the budget documents, the New Brunswick economy has performed better than the Canadian average in 1995 and the same is predicted for 1996.

D. Newfoundland and Labrador

The 1996 Newfoundland budget was tabled in the House of Assembly on 16 May 1996.

1. Revenue Trends

In 1990, total revenues of the government of Newfoundland were \$2,931 million. In 1995, they were \$3,244 million; they are expected to grow to \$3,372 million in 1996, but fall to \$3,269 million in 1997 as a result of declining federal transfers and lower own-source revenues.

2. Expenditure Trends

In 1995, total net expenditures on the current and capital account of the provincial government were \$2,988 million. They grew to \$3,112 million in 1996 but are predicted to fall to \$3,075 million in 1997.

3. Debt, Deficits and Interest Costs

Total public sector debt, net of sinking fund assets and less the debt of the utility corporation, equalled \$4,069 million in 1991 and reached \$5,528 million in 1995.

The provincial deficit has fallen steadily since 1991, when it reached \$347 million. In 1993, it was \$265 million, which fell to \$136 million in 1995. For 1996, a \$3.8-million surplus is expected. It will, however, revert to a \$45-million deficit in 1997.

Debt charges in 1993 amounted to \$492.5 million. By 1997, they should reach \$547 million (16.7% of revenues).

The federal government grants to the province \$8 million per year in perpetuity under the terms of Newfoundland's entry into Confederation. This payment is being advanced over the next three years, with \$50 million being paid in 1997 and another \$80 million over three years. Regular payments will not then resume for 20 years.

4. Fiscal Policy Measures

As a result of the expected decline in revenues, the provincial government is undertaking a program of spending control, program review and privatization. A high income surtax is being added to the PIT and the financial institutions capital tax is being raised.

The budget contains a \$30-million contingency reserve, an imitation of the federal government's budgetary innovations. In this respect, the underlying budgetary deficit should be only about \$15 million for 1997. On the other hand, the budget treats as revenue, the advance in "Term 29 Award" that the provincial government receives from the federal government. For 1997, the amount under that entry is \$50 million rather than the usual \$8 million. This advance is to be repaid by forgoing in the future the transfers to which the province is entitled. Although the extra \$42 million in 1997 is listed as revenue, it possesses some of the characteristics of borrowing.

In this respect, some might argue that the underlying provincial deficit for 1997 is really \$67 million.

5. Economic Forecasts

In 1994, the unemployment rate in Newfoundland was just over 20%. Although it fell in 1995, it is expected to increase again in 1996 to 19.4%. With the completion of Hibernia construction, real investment should fall by almost 18% in 1996. While the economy grew by 1.5% in 1995, it is expected to decline by 4.3% in 1996. Although a number of resource projects such as Voisey's Bay offer the prospects for economic growth, they are too far off to salvage economic growth in 1996.

THE TERRITORIES

The territories are unique entities in the sense that over 80% of their total revenues comes from the federal government.

A. Yukon

The 1996 Yukon budget was tabled in the Legislative Assembly on 15 February, 1996.

1. Revenue Trends

In 1997, total revenues of the Yukon government are expected to be \$449.5 million, down substantially from the previous year's \$508-million total. The Yukon government is heavily dependent upon the federal government for revenue. Only 16% of total revenues come from its own sources. The remainder comes from transfers from the Government of Canada plus other recoveries, again mostly from the Government of Canada.

2. Expenditure Trends

In 1995, total net expenditures on the current and capital account of the territorial government were \$453 million. They grew to \$506.6 million in 1996 but are predicted to fall to \$472.3 million in 1997.

3. Debt, Deficits and Interest Costs

Although the Yukon government is expected to run a deficit of \$24.9 million in 1997, this amount does not exceed the total of surpluses earned in the previous two years -- \$29.5 million in 1995 and \$1.3 million in 1996.

In 1991, the accumulated surplus of the government was about \$60 million. By 1997 it will be down to about \$7.5 million.

Although the government records gross debt charges in the neighbourhood of \$600,000 per year, the fact that it maintains a net surplus position on average means that interest income outweighs interest cost. Interest income is between \$350,000 and \$380,000 annually, on a net basis.

4. Fiscal Policy Measures

The government tries to maintain an accumulated surplus equal to one month's spending, about \$30 million. In recognition of impending cuts in federal transfers, the government controlled spending growth to keep a deficit from getting out of control. Nevertheless, in 1997 the government will face a deficit which is unusual and relatively large by Yukon standards.

B. Northwest Territories

The 1996 NWT budget was tabled in the Legislative Assembly on 2 May 1996.

1. Revenue Trends

In 1997, total revenues of the NWT government are expected to be \$1,168 million, down from the 1996 total of \$1,250 million. This compares with \$1,126 million in 1993. The NWT government is heavily dependent upon the federal government for revenue. Only 15% of total revenues come from its own sources. The remainder comes from transfers from the Government of Canada plus other recoveries, again mostly from the Government of Canada.

2. Expenditure Trends

In 1995, total net expenditures on the current and capital account of the territorial government were \$1,244 million. They grew to \$1,281 million in 1996 but are predicted to fall to \$1,211 million in 1997.

3. Debt, Deficits and Interest Costs

The NWT government has run deficits since 1994. At \$42.9 million, the 1997 deficit is the largest in recent years. In 1993, the government enjoyed a cumulative surplus of about \$56 million. It declined to \$19.8 million in 1994 and has turned into a debt position since. By the end of 1997, the net debt should be about \$85 million.

4. Fiscal Policy Measures

The budget indicates that declining transfers and other revenues would have resulted in annual deficits of about \$150 million, in the absence of deficit-cutting measures. Over \$100 million in spending cuts have been implemented and public employees have had their wages and salaries cut.

SUMMARY OF TRENDS

Canadian governments have generally come to the realization that their deficits and accumulated debts are too high. The extent to which they are coming to grips with this problem differs enormously from government to government.

Although governments are generally increasing their efforts to balance budgets and even repay outstanding debt, several have now come to the conclusion that excessive taxation also poses a significant threat to economic prosperity and job creation. The government of Ontario stands out in this regard. Not only is it implementing the most substantial of the tax cuts, it is doing so at the same time as it is reducing the deficit, not waiting, like some others, for the budget to be balanced.

Newfoundland and the two territorial governments also stand out to the extent that their fiscal positions are deteriorating in the short term.

